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1. EXECUTIVE SUMMARY

Executive Summary

Baltimore City Public Schools (BCPS) have incurred multimillion dollar unbudgeted operating deficits in each of the three fiscal years ending June 30, 2003. It is significant that the identification and communication of these operating deficits was primarily retrospective and there was little opportunity to mitigate them within the year they occurred.

We were engaged to review the BCPS budget and financial reporting processes to identify the deficiencies that have contributed to the operating deficits occurrence and delayed identification. Our engagement also calls for identifying opportunities to improve the budgeting and financial reporting processes and the related information technology systems and make recommendations that will take advantage of these opportunities. Our scope of work also included the co-development (with BCPS staff) of a work plan for the implementation of our recommendations that are adopted. The final phase of our work is to assist with the implementation of recommendations.

We focused our review on the three major processes of the budget function (budget preparation, budget monitoring and financial management) and the management information systems related to the budgeting and financial reporting functions.

Executive Summary

We identified significant underlying problems in the budget preparation and monitoring functions.

We determined during our review of the budget preparation process that:

- no formal budget process has been developed, communicated or executed;
- the budget rollup and preparation has not been deployed as a management tool;
- a significant portion of a individual department's budget is not controlled by that department's manager; and
- budget revisions are often not communicated to the department managers.

Executive Summary

Our review of the budget monitoring process revealed that:

- department managers have devised their own systems to monitor budget components they control and take no responsibility for the rest of the departmental budget;
- consistent financial numbers are not produced to measure results;
- monthly financial results reporting is not timely nor defined;
- useful reports to management on financial performance is not produced; and
- there is no training for the use of financial information that is available.

Executive Summary

During our review of the financial management process we observed that:

- department managers are not held accountable for their departments' financial results and they are not responsible for personnel decisions (hiring, termination or salaries) for employees reporting to them,
- budget changes are not always communicated,
- there is no benchmarking against other similar systems and
- departments do not work together as a team to manage the BCPS' resources.

The primary observations from our management information system review are that:

- the new HR system has implementation issues and will not resolve as many issues as expected,
- IT controls over eliminating non-budgeted or over-budgeted spending are not present and
- the management information system has significant internal control issues that must be identified and corrected.

Executive Summary

We are recommending that the CEO review the BCPS management reporting structure with the objective of making changes that will support the principle of holding department managers more accountable and address many of the problems identified above. We also recommend that the BCPS expand the executive cabinet to include certain key department managers.

Executive Summary

Our other specific recommendations are that:

- the budget and financial reporting processes be revised such that all costs are budgeted and charged to the department that controls the expenditure and that those cost roll up along the same lines as the management structure described above;
- the budgeting process should be better redefined, start earlier in the year, be better managed and be used as a financial management tool;
- financial management reports that are consistent with the budget and actual information be developed;
- department managers should be held accountable for their departments' operating results;
- the finance department should establish a financial analysis group that is responsible for producing financial reports, highlighting financial warnings and providing assistance to departments to manage their financial operations;

Executive Summary

- the finance department should establish a financial analysis group that is responsible for producing financial reports, highlighting financial warnings and providing assistance to departments to manage their financial operations;
- there should be monthly financial status meetings with the Executive Cabinet where the financial status of the BCPS are reviewed and financial policy changes are made;
- the Finance, Budget, Human Resources and IT departments should work together to support operating departments in their management of the BCPS financial operations; and
- the IT system be subjected to a critical review to determine
 - a. what cost effective modifications can be made to the operating the system,
 - b. how the system can produce useful management information and
 - c. how to eliminate significant controls risk.

Executive Summary

We believe that these recommendations will significantly improve the financial management of the BCPS as the budget will become a realistic management tool that will guide the financial decision making for the system's operations.

Implementation of these recommendations will provide BCPS managers and leadership useful information to manage departments, department managers will be responsible for their spending, and the IT department will be more effectively utilized as support for the financial management process.



2. BACKGROUND

Background

In January 2003, the Mayor and the Chair of the Baltimore Board of School Commissioners requested the assistance of the Greater Baltimore Committee (GBC”) and the Presidents’ Roundtable in reviewing BCPS’ fiscal management systems. In July 2003, the GBC and the Presidents’ Roundtable issued its report on the BCPS’ Fiscal Management Practices and Budget Process (“GBC Report”). The GBC Report provided a number of findings and recommendations. The GBC also determined that the expertise needed to perform a detailed analysis of the school system’s almost \$1 billion budget was beyond the initial scope of the GBC review team. The GBC team provided a framework and appropriate indicators showing where problem areas existed that required a more in-depth study.

As a result of the GBC’s/President’s Roundtable report, the Mayor, the BCPS and the Maryland State Department of Education requested this study to identify and assist with the implementation of recommendations to make improvements in the budgeting and financial management process.



3. REVIEW APPROACH

Review Approach



Review the GBC/Presidents' Roundtable Report

- We reviewed the GBC/Presidents' Roundtable Report dated July 2003 and utilized information reported as a means to locate specific areas to address. Issues noted and recommendations made are incorporated in this report.

Interview Key Personnel

- We interviewed the personnel listed on the next two pages for the purposes of reviewing the budget preparation, monitoring, and financial reporting processes for their respective departments. Information obtained was used to identify problems and develop recommendations as noted in this report. We also interviewed personnel responsible for the IT system that supports the budget and financial reporting function.

Key Personnel Interview Selections

- Alan Harris
- Anita Finn
- Bonnie Copeland
- Carlton Epps
- Carroll Kozlowski
- Cassandra Jones
- Cynthia Janssen
- Darryl Willford
- Deborah Wortham
- Diane Bell
- Don Biles
- Frank Whorley
- Gayle Amos
- Gwendolyn Cleage
- Howard Flynn
- Howard Steptoe
- Jeffery Grotsky
- John Lang
- John Lennon
- Director of Benefits/Administration/Policy
- Financial Reporting-MSDE
- Chief Executive Officer
- Chief Operating Officer
- Budget Officer-MSDE
- Chief Academic Officer
- District 7 Head
- Director of Facilities, Maintenance and Operations
- Professional Development Director
- Board
- Budget Director
- Director of Curriculum & Instruction
- Special Education Officer
- Curriculum & Instruction Officer
- Supervisor- Purchasing
- Director of Administrative Support Systems
- Chief of Staff
- Business Services-MSDE
- Director of Payroll

Key Personnel Interview Selections

- John Sarbanes
- Joseph Kirkman
- Kenneth Jones
- Mary Yakimowski
- Pam Della-Russo
- Pamela Holland
- Patricia Welch
- Pauline Edwards
- Ralph Tyler
- Robert Neall
- Rose Piedmont
- Rudolph Issacs
- Samuel Stringfield
- Saul Lilienfeld
- Shelia Starks-Dudley
- Valencia Baker
- Advisory to Superintendent –MSDE
- Chief Technology Officer
- Board
- Research & Evaluation Officer
- Grants Office-MSDE
- Director of Compensation, HRIS
- Board Chair-Board
- Director, Grants Administration
- Board
- Financial Consultant
- Chief Financial Officer
- Accounting Manager
- Board
- Accounting-MSDE
- Human Resources Officer
- Director of Transportation & Logistics

Review Reports of Financial Data

- We reviewed reports of financial data to determine the adequacy of the reports produced for financial management and possible improvements to the reporting functions. We also looked at the financial information that was available to managers and department heads online.

Review of IT Capacity Related to Budget Preparation and Reporting

- We interviewed several people with IT responsibilities to determine the status of the Human Resources System being implemented and to understand the present IT capacity related to financial management.
- The people interviewed are listed below:
 - Don Biles
 - Howard Steptoe
 - Joseph Kirkman
 - Rudolph Issacs
 - Shelia Starks-Dudley

Evaluate Budget Process

- Through the review of the GBC/Presidents' Roundtable report, interviews of key personnel, review of financial data, and review of the RP capacity related to budget preparation and reporting, we were able to evaluate the existing budget processes.

Develop Recommendations and Implementation Plan

- Our observations and their impact on BCPS, as well as our recommendations and the benefits to BCPS are detailed on the accompanying pages. These recommendations address major issues noted during our review. We have also developed an implementation plan which outlines the process and timing for the implementation of these recommendations that will be implemented by the BCPS.



4. OBSERVATIONS

Observations

Budget Preparation

We believe the following observations are major factors contributing to the existence of a BCPS' budget preparation process that has not been effectively developed, communicated and executed.

- Communications between department managers and senior management regarding a standardized budget process are not effective.
- Communications between senior management and department managers regarding changes to budgets submitted are not effective.
- No one “takes charge” to determine where cuts will be made (i.e., instead of cutting budgeted salary, an overall savings assumption is made).
- Budgets are based upon personnel statistics and not prior year actuals.
- There is no specific written guidance (other than a deadline) to managers responsible for budget preparation (i.e., should non-controlled cost in a budget category be developed by the department).
- There is no BCPS system wide training or assistance to help department managers prepare their budgets.
- The budget process starts without senior management guidance to departments relative to spending limits.
- The budget process starts before input from the master plan is available.

Observations

Budget Preparation

The budget document currently prepared is not usable as a tool to manage the fiscal accountability of department managers

- The budget currently prepared is not rolled up along reporting responsibility lines.
- The general ledger roll up is not consistent with the budget currently prepared.
- Department managers do not understand what is in their budget and hence do not take responsibility for it.
- Department managers are currently encouraged to compare their budget to actual information monthly, however; they are not required to do so and are not held accountable for overages.
- Budget to actual reports are not created in a timely manner.

Observations

Budget Preparation

A significant portion of the budget is not controlled by the operating departments' managers.

- Departments noted that significant portions of their budgets are not controlled or monitored by their department.
- Certain cost charged to a department's budget is not incurred in that department.
- Department managers' indicated that the CFO either prepares or controls the budget.
- The departmental budgets do not include contingent funds for unexpected expenditures that might occur during the year.
- Certain departments are charged for unbudgeted maintenance costs. The capital budget is not adequate and any unbudgeted maintenance costs are not charged to the capital budget because there is not a formal maintenance program.
- Departments take no responsibility for the excess teachers in BCPS because they had no input into the estimate of the number of teachers to hire.

Observations

Budget Preparation

The budget is prepared as a funding process and never receives “buy in” from department managers.

- Several department managers indicated that the budgets they submitted and presented to financial management were not the budgets published in the annual budget book. These department managers indicated they were not aware of why the changes were made and that the changes were not communicated to them before publication of the budget book.

Budget revisions are often not communicated or realistic.

- Revisions to the budget are often not reflected in the actual budget.
- The approval or disapproval of budget revisions is not communicated to the respective department managers.
- Reductions in departments' budgets are made by either the CFO or the budget department without notification/justification to the departments

Observations

Budget Preparation

Significant dollars are budgeted by positions and not budgeted salary cost.

- Human Resources negotiates salaries based on the range of salaries in the department instead of the specific budgeted amount for a given position.
- A comparison of budgeted salary by position to average salary by position is not performed timely.
- Many positions are budgeted at average cost without anyone determining if the total salary budgeted using average cost is consistent with the expected actual cost of all of the positions budgeted using average cost.

Observations

Budget Monitoring

Departments have devised their own systems to monitor the budget components they control and take no responsibility for the remaining components of the budget.

- No one in budget or finance monitors department financial results to highlight potential problems and insure that managers understand their operating results.
- Departments have several budget analysts to prepare their financial reports using information inconsistent with financial information prepared by the financial department.
- Budget monitoring is only performed by those that report to the Chief Executive Officer.
- Departments determine which line items of their budget they believe they can control and only monitor and control those line items.

Consistent numbers are not produced.

- The system that each department uses to produce numbers is not consistent with other departments.

Budget to actual reporting is not timely and does not match budget categories.

- Budget to actual reports are not submitted to senior management on a timely basis.
- The budget rollup for budget reporting is different than the rollup for financial reporting.
- Departments prepare their own budget vs. actual reporting which includes budget amounts other than the approved budget amounts.

Observations

Budget Monitoring

Management reporting is not defined.

- The system reports received on an inconsistent basis are not used by departments as they are not considered to be useful or accurate.
- Useful highlight reports are not prepared by senior management.
- Financial reports prepared are too detailed and are not summarized to be useful to department managers.
- A financial matrix to monitor financial performance has not been established.
- Grant reporting is not included in the financial reports produced.

Useful reports to management on financial performance are not produced.

- We obtained reports for the purposes of reviewing financial performance. We noted those reports were simply data collection sites with no real value to the reader.
- Encumbered obligations are not included in financial reports.
- Reports prepared for the Board to present the BCPS' financial status included assumptions that were not realistic, communicated to the Board or agreed to by department managers.
- Department managers do not understand their financial results and where they stand as compared to their budgets.
- Financial results are not timely discussed and financial changes are not made timely.

Observations

Budget Monitoring

No training on financial information available.

- We noted that individuals responsible for creating the budgets are not adequately trained.
- Individuals are put into positions without the proper experience or training.

Observations

Financial Management

The BCPS's management structure should be revised.

- The CEO has more than 10 individuals reporting directly to her.
- Numerous departments that must work together to achieve a business function do not report to the same person until their ultimate reporting to the CEO.
- The current management structure does not support efficient and effective teamwork and communications between the CEO, CAO, COO, CFO and Chief of Staff, the members of senior management that are ultimately responsible for the success of the BCPS.

Only department managers are responsible for budgets

- Other individuals involved in the budget process have not taken nor were they informed about their responsibility for the budget process.

Observations

Financial Management

Department managers do not feel that they are nor should they be held accountable for financial results.

- Significant dollars spent are not controlled by the department to which they are charged.
- No one is responsible for controlling the costs to be within budget for a significant portion of the budget.
- There are no ramifications for department managers when their departments generate budget overages.

Observations

Financial Management

Budget changes are not always communicated to department managers.

- Several department managers indicated that the budgets they submitted and presented to management were not the budgets published in the annual budget book. These managers indicated that they are not aware of what caused the changes and the changes were not communicated to them before publication.

Department managers do not control hiring, termination or the salaries of employees.

- After departments interview candidates for open positions the process is turned over to Human Resources for completion.. The amount of time elapsing from the interview to the candidate being contacted by Human Resources is too long (11 months in one instance).
- Departments believe it is difficult to operate within their budget when they do not have input into the starting salaries for new hires or control the process for timely termination of employees.
- There are no controls in place to ensure that temporary or grant funded employees are terminated when the approved contract period or grant period ends.

Observations

Financial Management

BCPS does not utilize benchmarking as a tool to improve it's financial management.

- BCPS does not perform any benchmarking against other similar school systems or among BCPS' schools to identify ways it can improve it's budgeting processes or identify areas of potential cost savings.

Departments do not work together as a team

- Communication between the department managers and senior management when budget issues are discussed are not perceived to be effective.
- Support departments do not understand the essentials of their role to provide support for operating departments.
- There is no level of service expectation between support departments and operating departments.

Observations

Financial Management

Support departments do not support operating departments.

- Department managers believe they do not receive enough information, guidance, or training on how to understand the financial information provided.
- Department managers believe that finance and budget makes a lot of the financial decisions for the departments instead of providing the department managers information to make the decisions.
- Departments can make purchases without obtaining approval that the funds are available in their budget and without going through the procurement system.
- Departments can hire staff without verifying that the funds are available in their budget and without going through the HR process.

Observations

Financial Management

Financial status of the school system is not communicated to obtain “buy in” by department managers.

- Some department managers do not believe that the BCPS has a financial crises.
- Department managers believe that the financial conditions of the BCPS are not communicated to them and they are not given input into the financial changes to be made.
- Department managers believe they have little input into identifying cost savings.

Observations

Financial Information System

Controls over eliminating non-budgeted or budget spending are not effectively implemented.

- The current controls configuration within the FRMS application does not enforce strict budget controls. More significantly, however, procedural deficiencies that prevent an effective budget control process, include (1) budget amendments are not recorded and (2) schools are able to hire teachers without processing required HR documentation and without budget approval for unfunded positions.

FRMS is not effectively deployed and used

- While FRMS has been operational since 1999, incomplete system configuration combined with inadequate training prevents the system from being fully utilized.

PSB is not fully implemented

- The Public Sector Budgeting (PSB) module was only partially implemented to support the budget development process.

The business processes around HRMS need improvements

- Poorly designed business processes around the HR module of HRMS lead to significant data integrity issues.
- HR business processes may not be designed to fully take advantage of the application.

Observations

IT System

System implementation process does not effectively combine technical systems implementation with business process realignment.

- The systems implementation efforts are primarily lead by IT. IT does not have sufficient control over business process aspects to ensure that business processes are aligned to the technical system architecture and functionality.



5. RECOMMENDATIONS

Listing of Recommendations

1. Develop a standard budget process that is effectively communicated
2. Incorporate the master plan into the budget goals given at the start of the budget process
3. Revise the budget account rollup and where cost is charged
4. Budget salary cost by actual salary planned instead of average salary
5. Establish contingent funds in the annual budget
6. Involve the academic management in the estimate of the number of teachers that need to be hired
7. Develop a long range capital needs budget
8. Develop useful financial management reports
9. Develop a grant reporting and monitoring process
10. Establish monthly financial status meetings
11. Establish a financial analysis group in the finance department
12. Utilize an encumbrance accounting system to identify over budget spending
13. Improve the financial forecast process
14. Establish formal training and tools to assist department managers with the management of their department's finances
15. Require that the financial reporting to the Board reflect the information requested

Listing of Recommendations

16. Revise the management structure/ lines of reporting
17. Hold department chiefs responsible for their financial results
18. Require department managers below those that report to the CEO to be responsible for their budgets
19. Hold departments responsible for staying within the budgeted payroll dollars as well as budgeted positions
20. Increase the number of people on the team managing the financial crises
21. Require that department managers approve the hiring and termination of employees and participate in establishing new employee's salary
22. Establish controls to terminate employees when their temporary contract ends or their grant expires
23. Require that all purchases and new hire decisions obtain budget approval before being made
24. The Financial, Budget, Human Resources and IT departments should support the operating departments in financial management
25. Benchmark financial performance against similar school systems
26. Conduct a pre-implementation review of HRMS and related processes
27. Conduct a review of the financial information system to identify efficiencies and controls

Recommendations

Budget Preparation

1. Develop a standard budget process that is effectively communicated

- **Issue**
 - The BCPS's current budget process, as developed by the budget department, is not communicated to all departments in the organization, is not followed and is incomplete.
- **Impact**
 - The budget is not developed as a management tool to guide the organization's spending.
 - Department managers do not restrict their spending to the budgeted resources.
 - Budget preparation guidance for expected level of spending is not given to departments at the beginning of the process.
 - The budget preparation process schedule is not followed. Unanswered questions and unresolved issues hinder timely submission.
 - There is no process for approval/disapproval of changes proposed by departments.
 - Training for the budget preparation process is not available.
- **Recommendation**
 - A new budgeting process and schedule should be developed. This process should be fully communicated to department managers, include a formal training component, provide tools and detail instructions to departments, require consistent reporting standards for departments and the budget department should develop a process for responding timely to questions and requests for assistance.
- **Benefit**
 - Departments will have detailed guidelines for their participation in the budget preparation process.
 - Departments will be updated timely on the actions taken on budget submissions.
 - A timely executed budget process will allow for all budget submissions to be considered in the final approved budget.
 - Projected cost for department employees, historical departmental costs and anticipated changes should be given to each department with its budget instructions.

Recommendations

2. Incorporate the master plan into the budget goals given at the start of the budget process

- **Issue**
 - The master plan is completed after the budget process has started and is incorporated into the budget after the budget is submitted by department managers.
- **Impact**
 - Unbudgeted items in the master plan resulting in deficit spending to implement the activity or result in finance cutting a department's budget to fund the activity. These cuts are often not communicated to the departments effected by the finance department's actions
- **Recommendation**
 - The master plan initiatives should be identified and costed before the budget process starts. These initiatives should be communicated to department managers along with the budget goals and instructions that they be incorporated into their budgets.
- **Benefit**
 - Master plan initiatives will be budgeted and not cause deficit spending.

Recommendations

3. Revise the budget account rollup and where cost is charged

- **Issues**

- Significant portions of some departments' budgets are not controlled or monitored by those departments. Because the departments do not control certain spending that is charged to their budget they take no responsibility for those dollars. This has been a major contributing factor in the generation of budgets deficits.

- **Impact**

- There is no monitoring of major portions of the departments' budget. As a result, while departments may say they are within budget, they are only referring to what they control, which is not defined and changes throughout the year. The result is no spending limitations and departments being over budget.

- **Recommendation**

- Budget and financial reporting processes should be revised so that all costs are budgeted and charged to a specific department that is responsible for controlling expenditures. These costs should rollup along the same lines as the revised management structure.

- **Benefit**

- Each department will be fully aware of and responsible for all costs attributed to the operations they control and, as a result, the potential that portions of a budget will go unmonitored will be significantly reduced. Also, these departments can be held responsible for operating within their budgets and for their financial results.

Recommendations

4. Budget salary cost by actual salary planned instead of average salary

- **Issue**
 - Salaries for many positions are budgeted based on the average salary for the position and not actual salaries of people working in the department or school. Also, the average salary per position is not calculated regularly to insure that the average salaries used is the actual average salary.
- **Impact**
 - BCPS could be creating a budget deficit when the budget is prepared as they do not compare the total payroll budgeted to the total payroll expected based on current employees' pay plus planned increases and the salary committed for new employees.
- **Recommendation**
 - Departments should be given the actual payroll for people in their school or department plus the percentage increase to budget for salaries and the amount to budget for salaries for new positions.
- **Benefit**
 - This recommendation will prevent built in deficits in the approved budget.

Recommendations

5. Establish contingent funds in the annual budget

- **Issue**

The budget prepared for the past two years did not include contingent funds to be controlled by the CEO or CFO to be used for unexpected expenditures that will require budget resources. These budgets did however, include unidentified savings that were never achieved.

- **Impact**

When unexpected events occur which require unbudgeted funds, they either create a deficit or require reductions in other budgeted items.

- **Recommendation**

An amount should be budgeted for unexpected expenditures (a contingency).

- **Benefit**

This recommendation will assist in avoiding spending deficits.

Recommendations

6. Involve the academic management in the estimate of the number of teachers that need to be hired

- **Issue**
 - Human Resources estimates the number of new teachers that need to be hired based on its estimate of teachers that will retire or leave. This estimate does not take into account the anticipated reduction in the student population or input from the academic departments.
- **Impact**
 - To the extent that too many teachers are hired, the excess teachers are put into schools and are charged to the schools budget. The academic departments take no responsibility for this cost as they had no input into the over hiring decision.
- **Recommendation**
 - The academic departments should be involved in the estimate of the new teachers to hire and the total number of teachers hired. They then should be held responsible for the estimate and all teacher's salary.
- **Benefit**
 - This recommendation would prevent the incurring of costs that no one takes responsibility for controlling.

Recommendations

7. Develop a long range capital needs budget

- **Issue**
 - The BCPS capital budget consists of major renovations and new construction that will be funded by the City of Baltimore or State of Maryland. The capital budget does not include a long range capital maintenance program which would reduce the need to fund many major repairs out of the operating budget.
- **Impact**
 - Major repairs are presently funded out of the operating budget and the operating budget does not have sufficient funds to cover all of the repairs required each year.
- **Recommendation**
 - BCPS should develop a long range capital budget that addresses major maintenance needs to maintain the facilities to standard. Also, the operating budget should include sufficient funds for expected but unidentified major repair cost during the year.
- **Benefit**
 - This would reduce the deficits from unbudgeted major repair costs.

Recommendations

Budget Monitoring

8. Develop useful financial management reports

- **Issue**
 - The financial reports currently produced do not contain useful financial management data. The reports do not roll up information along the lines of the management structure and the actual amounts do not roll up consistent with the budgeted amounts.
- **Impact**
 - The financial performance of departments do not accurately reflect their operating reports or where they stand against budget. Therefore, departments do not know where they stand compared to budget or cost they can control. Also, information is not available to highlight significant variances from budget or where financial actions are required.
- **Recommendation**
 - The BCPS needs to establish what financial information will be available to department managers and ensure those reports are timely prepared. The reports should highlight budget vs. actual variances and provide information that is useful for management decisions.
 - The general ledger should be mapped such that actual data is rolled up the same as budget categories.
 - The BCPS should determine what are the key financial measures to provide a high level financial operating overview. This information should be reported to the Board of its financial oversight
- **Benefit**
 - Meaningful budget to actual information will be produced that can be used to track potential budget issues. Department heads will be able to monitor their financial results, make necessary financial adjustments and be held accountable for their financial performance.

Recommendations

9. Develop a grant reporting and monitoring process

- **Issue**
 - Grants represent a significant source of funds and are used to fund a significant part of the BCPS's operating cost. There is no standard reporting on the status of grant funding, unspent grant funding and financial decisions needed to be made at the end of grant terms. Also, grant approval and compliance monitoring are performed by different departments.
- **Impact**
 - Grant dollars go unspent and BCPS incurs unbudgeted cost for employees working on grants that expire before a new grant is identified to fund the position or before the employee is terminated.
- **Recommendation**
 - Develop a grant reporting and monitoring process that reports on the status of all grants and the grants impact on the operating budget as part of the normal reporting to management.
 - Review the grant function to better define and organize the grant function. The function should be consolidated to clearly define who is responsible for approving new grants, who is responsible to monitor grant compliance (both financial and operations) and who is responsible to ensure grant reports are issued timely.
- **Benefit**
 - This recommendation will assist in ensuring that all grant dollars are utilized and can reduce incurring unbudgeted costs at the end of a grant.
 - This recommendation will assist in ensuring that the BCPS complies with the grant terms and will not have a liability due to the grantor.

Recommendations

10. Establish monthly financial status meetings

- **Issue**
 - All departments need to address the financial crises and leadership needs to have up-to-date information on the financial operations. Also, financial decisions need to be conveyed and implemented timely.
- **Impact**
 - Opportunities to reduce cost and potential financial issues are not communicated to the leadership timely.
- **Recommendation**
 - We believe an expanded Executive Cabinet should meet at least monthly, it not more often, to address financial management issues. The Chief Academic and Operating Officers should meet with their reports to insure they know their financial status so that they can provide current information on the financial status at the Cabinet meetings. Finance should produce reports of useful information to show information needed on financial reports, projected results and highlight potential problems.
- **Benefit**
 - Improved financial management.

Recommendations

11. Establish a financial analysis group in the finance department

- **Issue**
 - Currently, finance does not produce useful information for the CEO or department managers which highlights potential financial issues and projected results. They also do not support operating departments by providing financial highlights or issues in departmental operating results.
- **Impact**
 - Potential financial issues are not identified and brought to the attention of the appropriate individuals on a timely basis.
- **Recommendation**
 - The finance department should create a financial analysis group to prepare management financial reports, identify and highlight potential issues, and assist departments in understanding their finances.
 - Eliminate the independent budget analysis functions in the operating departments and require those departments to obtain their financial information from this budget analysis group.
- **Benefit**
 - Potential budget issues will be identified early and departments will have a better understanding of their financial situations.

Recommendations

12. Utilize an encumbrance accounting system to identify over budget spending

- **Issue**
 - BCPS does not include encumbrances in the financial reports prepared.
- **Impact**
 - Financial reports that are available to department managers do not reflect purchase obligations and thus departments do not know the actual funds available in their budget.
- **Recommendation**
 - BCPS should implement the encumbrance accounting method in its financial reporting to ensure budgeted funds are available before incurring the expenditure.
- **Benefit**
 - This recommendation will give a better accounting of obligated budgeted dollars.

Recommendations

13. Improve the financial forecast process

- **Issue**
 - The financial forecast is performed by finance with operating assumptions that have not been discussed or agreed to by the affected operating departments. Also, the forecast did not include some non monthly expenditures that were going to be incurred.
- **Impact**
 - The financial forecast prepared and which management assumed would be the operating results for the year were significantly understated and lead to needed management decisions not being made.
- **Recommendation**
 - The process to prepare financial forecast should be redefined to be more accurate, should use realistic assumptions and should include input from the operating departments.
- **Benefit**
 - Financial projections will reflect a more realistic financial information on which decisions are made.

Recommendations

14. Establish formal training and tools to assist department managers with the management of their department's finances

- **Issue**
 - Finance doesn't provide training or tools to department managers on how to prepare a budget, review financial reports, control cost, or manage their finances.
- **Impact**
 - Certain financial managers can not manage their finances.
- **Recommendation**
 - Finance should develop tools and training for department managers on how to prepare their budget, review finance reports, monitor their financial reporting, control cost and manage the financial results of their department.
- **Benefit**
 - Managers will be better prepared to manage their financial results.

Recommendations

15. Require that the financial reporting to the Board reflect the information requested

- **Issue**
 - Financial reports submitted to the Board have not reflected the true financial position of BCPS and the projected results for the year. The reports submitted to the Board have reflected senior management's assumption that were often not realistic, never implemented and never communicated to the operating departments.
- **Impact**
 - The reports submitted to the board showed an incorrect financial status and did not provide the Board the proper information that was necessary for them to perform their oversight responsibilities.
- **Recommendation**
 - Finance must have a process to produce financial forecasts that obtains input from operating departments and that reports results with realistic assumptions.
 - Financial highlights and key operating measures should be reported to the Board.
- **Benefit**
 - The Board can exercise its oversight and demand corrective actions as it becomes known that such action is needed.

Recommendations

Financial Management

16. Revise the Management Structure

- **Issue**
 - Under the present management structure of the BCPS over 10 individuals report directly to the CEO and several support departments report to the CEO from different chains of command.
 - We believe many of the issues facing the BCPS are attributable to a the lack of accountability in the management structure down to the department manager level.
- **Impact**
 - The CEO has too large of a span of control and thus gets directly involved in too many issues that should be resolved by other members of senior management. Also, the present structure does not require certain departments to work together effectively, because they report to the CEO through different chains of command .
- **Recommendation**
 - The CEO should review the BCPS management structure with the objectives of reducing the number of individuals reporting directly to her and insuring that departments work together more effectively.
- **Benefit**
 - We believe the adoption of this recommendation will result in the establishment of a more streamlined approach for the management of BCPS's financial and people resources. Reducing the number of individuals reporting to the CEO from over 10, will improve the efficiency of the decision making processes of the major functions of the BCPS. Under this structure, the CEO will be able to reduce the number of reports she holds accountable for carrying out the mission of BCPS and accountability will be pushed further down into the management organization.

Recommendations

17. Hold department managers responsible for their financial results

- **Issue**
 - Department managers are not held accountable for submitting timely budget information or operating within their submitted budget. Budget revisions are not always communicated back to department managers and many revisions are never processed into the budget system.
- **Impact**
 - The late preparation of the budget and department managers not being held responsible for their financial results has been a major contributor to the generation of operating deficits.
- **Recommendation**
 - A realistic budget timeline should be established and the roll up of budget accounts should follow the management structure.
 - Department managers should be held accountable for operating within their approved budget.
 - Establish the disciplinary actions and penalties to be imposed against those department managers that do not take responsibility for their financial results or that spend outside of their approved limits
 - Make financial management a part of the requirement for management positions and make the lack of financial management grounds for demotion or termination.
- **Benefit**
 - A realistic management tool that department managers can use to monitor their financial results.
 - Department managers will take more responsibility for operating results.

Recommendations

18. Require department managers below those that report to the CEO to be responsible for their budgets.

- **Issue**
 - Only those that report to the CEO monitor or control the budget for all departments that report to them. Financial reports are not shared with the department managers that report to those individuals. Also, department managers do not take responsibility for all of the costs incurred by their department.
- **Impact**
 - Managers responsible for operations closest to where the cost is being incurred take no responsibility for controlling the cost.
- **Recommendation**
 - Every department manager should be responsible for developing the budget for his/her department, monitoring the cost incurred by the department and managing the operations to spend within the approved budget.
- **Benefit**
 - This will assist in controlling spending and help prevent operating deficits.

Recommendations

19. Hold departments responsible for staying within the budgeted payroll dollars as well as budgeted positions

- **Issue**
 - Positions in the schools and academic departments are budgeted by positions using average cost. Principals and department managers are only responsible for controlling budgeted positions. Teachers in a school that were not requested by the principal or department manager are not counted as a budgeted position.
- **Impact**
 - Principals or managers are not held responsible for positions in a school or department that were not requested by the principal or manager even though they are charged to their budget. Also, if the total cost of the budgeted positions are more than the budget, they are not responsible for these over budget amounts. This results in costs no one takes responsibility for and if this causes a deficit, no one is responsible or feels they need to take action to eliminate this deficit.
- **Recommendation**
 - We recommend that principals and department managers be held responsible for all positions and all cost , including payroll that is incurred by or charged to their department.
- **Benefit**
 - This recommendation will prevent significant spending which no one controls and provide for management of all costs against budgeted amounts.

Recommendations

20. Increase the number of people on the team managing the financial crises

- **Issue**

- The BCPS has a significant financial crisis which must be addressed to reduce the projected operating deficit for fiscal year 2004. To provide the attention needed and come up with the changes to reduce the operating deficit, the BCPS needs a team that is responsible for dealing with the financial crises.
- The CEO has assembled such a team consisting of a special assistant to the CEO, the Chief of Staff, the Chief Financial Officer and the COO to manage the financial crises.

- **Impact**

- This team has done an outstanding job of identifying the root causes of the financial crises, identifying ways to reduce cost and making recommendations to the CEO to implement cost reduction plans.
- The team currently consists of new members of senior management for the BCPS but not those that have responsibility for academic or business operations on which the majority of the systems dollars are spent.

- **Recommendation**

- We recommend that this team be expanded to include key operating department managers.

- **Benefit**

- The inclusion of more key operating managers to this team will have the following benefits; (1) broader management participation in the recommendation of changes and organizational support for the changes; (2) two key individuals responsible for implementing or making the changes will be better prepared to manage these changes in their departments; and (3) these individuals may identify opportunities for effective changes that might otherwise be missed.

Recommendations

21. Require that department managers approve the hiring and termination of employees and participate in establishing new employee's salary

- **Issue**
 - Currently, Human Resources is responsible for the hiring, termination and the establishment of starting salaries for most employees. Department managers believe they have little input into starting salaries or the timing of when an employee is terminated. Once departments make a request, Human Resources controls the whole process.
- **Impact**
 - Department managers believe they have no control over the starting salary or the addition or delete of people to/from their budget. As a result, they can not control this cost.
- **Recommendation**
 - Department managers should be involved in approving the hiring and starting salaries of new employees. There should be established approvals to terminate someone and a set period of time during which the termination should take place.
- **Benefit**
 - Greater accountability for departmental costs.

Recommendations

22. Establish controls to terminate employees when their temporary contract ends or their grant expires

- **Issue**
 - There are no controls in place to ensure that managers are notified before funding for temporary employees has ended or when the funding for grant funded employees will expire.
- **Impact**
 - Temporary employees and grant funded employees continue to work and are paid when there are no budgeted funds available thereby contributing to the operating deficit.
- **Recommendation**
 - A system should be established such that temporary employees will be paid a certain amount and for a certain period based on the funds available when they are hired. Before the termination period is reached, finance, human resources and the temporary employee's department manager should be notified the termination date is near and the termination process should be started or other budgeted funds obtained. Also, a similar notification and termination process should be used when the grant funding for grant funded employee is about to expire.
- **Benefit**
 - This recommendation will reduce deficit spending.

Recommendations

23. Require that all purchases and new hires decisions obtain budget approval in advance.

- **Issue**
 - Departments are allowed to make purchases outside of the procurement process and employees can be hired without going through the Human Resources system.
- **Impact**
 - All obligations incurred are not timely tracked or determined if there are budgeted funds to pay for the obligation.
- **Recommendation**
 - All disbursements should require budget approval in advance to ensure the funds are available prior to the purchase being made. The BCPS should also establish which purchases must be made through the procurement system. All hiring should require budget approval and Human Resources approval in advance of the hiring of the employee .
- **Benefit**
 - This recommendation will reduce deficit spending and provide better controls over incurring financial obligations.

Recommendations

24. The Financial, Budget, Human Resources and IT departments should support the operating departments in financial management

- **Issue**

- Support departments do not operate with the framework that their duty is to provide assistance to the operating departments, and that they too have a level of responsibility regarding financial management. Many financial decisions are made at the Human Resources, Financial or Budget departments without agreement or communications with the appropriate operating departments.
- Some untimely decisions by Human Resources have a financial impact on operating departments.
- The lack of consistent, timely and useful information to departments makes it difficult for them to monitor or make financial decisions.
- There are a significant number of budget analysts in the various operating departments.

- **Impact**

- Many financial forecasts are not met because the proposed changes assigned are not communicated, agreed to or implemented by the operations team.
- The operating departments are faced with the difficult task of trying to manage the financial operations without the cooperation of the support departments.
- These support departments impact the budgeting, expenditures, and other aspects of operating departments as they make financial decisions
- Operating departments have many budget analysts performing functions that should be performed centrally by the finance department.

- **Recommendation**

- The Finance, Budget, Human Resources, and IT departments should work together to support operating departments and manage the BCPS financial operations. Their function should be to support the operating departments and not make the financial decisions for them without their input or knowledge. The fiscal responsibility is a shared responsibility between the operating departments and finance.

- **Benefit**

- With the support and operating departments working together, a stronger, complete team is in place that can address and resolve issues related to the financial management of the BCPS.
- The budget analysts in the operating departments should be eliminated and these departments should rely on the financial information provided from Finance.

Recommendations

25. Benchmark financial performance against best practices and similar school systems

- **Issue**
 - BCPS does not perform any benchmarking against other similar school systems or other best practices entities to look for areas of efficiencies, improvements and guidelines for allocating resources.
- **Impact**
 - Better ways to utilize the BCPS's financial resources are not identified.
- **Recommendation**
 - The BCPS should identify key operating and financial statistics and compare the BCPS's operating results for these metrics against similar size school systems and other entities that perform best in those areas measured. Where other similar systems have more positive results, more review of those areas could be performed to look for efficiencies.
- **Benefit**
 - BCPS could identify areas where its spending and efforts are much higher than similar school systems. This information would be helpful for the system to further review these areas for potential opportunities to reduce cost and improve efficiencies.

Recommendations

Financial Information System

26. Conduct a pre-implementation review of HRMS and related processes

- **Issue**
 - Previous data validation efforts identified data integrity issues caused by control weaknesses within certain human resources processes.
 - Processes, manual procedures and interaction with the system may not be fully defined and implemented, nor understood by all process participants.
- **Impact**
 - Without effective procedures to process HR transactions (new hires, transfers, terminations, etc.), there is a high risk of:
 - Infiltrating erroneous data into the system,
 - Circumventing defined control mechanisms (such as the position control), and
 - Not meeting expected service levels.
- **Recommendation**
 - HRMS and related processes (procedures and tasks) should be validated prior to the go-live of the system. This validation should focus on the following key aspects:
 - Ensure procedures are in place to handle all types of human resource transactions. Ensure these procedures are communicated and understood. Also ensure these procedures are defined to make effective use of the information system.
 - Ensure key controls, such as the position control workflow are enforced by corresponding procedures and systems configuration.
 - Ensure data integrity, as well as data security controls, is in place to prevent intentional and unintentional errors.
 - Ensure the defined allocation of roles and responsibilities are reflective of expected work volumes to prevent the build up of bottlenecks through inadequate workload balancing.
- **Benefit**
 - The likelihood of a successful HRMS implementation will improve, allowing BCPS to effectively capitalize on the new system and limit costly post-implementation corrections.

Recommendations

27. Conduct a review of the information systems to identify efficiencies and controls

- **Issue**
 - Numerous control features provided by the information system are not being utilized, including controls that prevent unapproved expenditures (payroll and non-payroll).
 - The financial reporting capabilities of the system are not fully utilized due to configuration issues (in FRMS and PSB) as well as lack of expertise and training.
- **Impact**
 - Key process controls, such as overspending controls, are not enforced by the system.
 - The current financial and budget reports do not effectively support the management process.
- **Recommendation**
 - Once an effective financial management and budget monitoring approach and process is defined, the supporting information systems, including HRMS, FRMS, and PSB should be reviewed to ensure that:
 - Relevant automated controls are activated to support, in conjunction with the manual procedural controls, an effective system of internal controls to maintain the desired level of data integrity as well as the required level of compliance with relevant policies.
 - The data structure and the definition of reports are established to effectively support the financial management and budget monitoring process.
 - Tools and training are provided to allow the creation of additional analyses and reports timely and with a high level of integrity.
 - Change management and security management processes are in place to ensure the ongoing integrity of the information systems and its data.
- **Benefit**
 - BCPS would increase the capitalization on its investment in information technology and enable the system to effectively support its financial management and budget monitoring processes.



6. IMPLEMENTATION PLAN

Implementation Plan Tool

Recommendation	Priority	Project Implementation Manager	Required to Implement	Process to Implement	Status	Due Date
Develop a standard budget process						
Incorporate the master plan into the budget goals given at the start of the budget process						
Revise the budget account rollup and where cost is charged						
Budget salary cost by actual salary planned instead of average salary						
Establish contingent funds in the annual budget						
Involve the academic management in the estimate of the number of teachers that need to be hired						

Implementation Plan Tool

Recommendation	Priority	Project Implementation Manager	Required to Implement	Process to Implement	Status	Due Date
Develop a long range capital needs budget						
Develop useful financial management reports						
Develop a grant reporting and monitoring process						
Establish monthly status meetings						
Establish a financial analysis group in the finance department						
Utilize an encumbrance accounting system to identify over budget spending						
Improve the financial forecast process						

Implementation Plan Tool

Recommendation	Priority	Project Implementation Manager	Required to Implement	Process to Implement	Status	Due Date
Establish formal training and tools to assist department managers with the management of their finances						
Require that the financial reporting to the Board reflect the information requested						
Revise the management structure						
Hold department managers responsible for their financial results						
Require that department managers below those that report to the CEO to be responsible for their budgets						
Hold departments responsible for staying within the budgeted payroll dollars as well as budgeted positions						
Increase the number of people on the team managing the financial crises						

Implementation Plan Tool

Recommendation	Priority	Project Implementation Manager	Required to Implement	Process to Implement	Status	Due Date
Require that department managers approve the hiring and termination of employees and participate in establishing new employee's salary						
Establish controls to terminate employees when their temporary contract ends or their grant expires						
Require that all purchases and new hire decisions have budget approval before being made						
The Finance, Budget, Human Resources and IT departments should support the operating departments in financial management						
Benchmark the BCPS financial performance against similar school systems						
Conduct a pre-implementation review of HRMS and related processes						
Conduct a review of the financial information system to identify efficiencies and control weaknesses						